



BILLING CODE 6717-01-P

FEDERAL ENERGY REGULATORY COMMISSION

California Independent System
Operator Corporation

Docket No. ER11-4580-000

SUPPLEMENTAL NOTICE OF AGENDA AND DISCUSSION TOPICS
FOR STAFF TECHNICAL CONFERENCE

This notice establishes the agenda and topics for discussion at the technical conference to be held on February 2, 2012 to discuss issues related to the California Independent System Operator Corporation's (CAISO) proposal to eliminate convergence bidding at intertie scheduling points.¹ The technical conference will be held from 9:00 a.m. to 4:30 p.m. (Eastern Time) in Hearing Room 1 at the Commission's headquarters, 888 First Street, NE, Washington, DC. The technical conference will be led by Commission staff.

The topics and related questions to be discussed during this conference are attached. The purpose of the technical conference is to provide Commission staff and interested parties an opportunity to discuss CAISO's proposal to eliminate convergence bidding at intertie scheduling points in detail. No formal presentations will be made other than an opening presentation by CAISO; however, parties will be encouraged to participate in the discussion along with Commission staff. All interested parties may file written comments following the technical conference.

The technical conference will be open for the public to attend, and advance registration is not required. The conference will be accessible via telephone on a listen-only basis. For information regarding telephone access to the conference and to specify whether you will be dialing into the conference, please email colleen.farrell@ferc.gov no later than 5:00 p.m. (Eastern Time) on Monday, January 30, 2012. You will then receive a confirmation email containing a dial-in number and a password. Staff requests that, to the extent possible, individuals calling from the same location share a single telephone line.

FERC conferences are accessible under section 508 of the Rehabilitation Act of

¹ *Cal. Indep. Sys. Operator Corp.*, 137 FERC ¶ 61,157 (November 25, 2011 Order).

1973. For accessibility accommodations please send an email to accessibility@ferc.gov or call toll free 1-866-208-3372 (voice) or 202-208-8659 (TTY), or send a fax to 202-208-2106 with the required accommodations.

For more information on this conference, please contact Moon Athwal at moon.athwal@ferc.gov or (202) 502-6272 or Colleen Farrell at colleen.farrell@ferc.gov or (202) 502-6751.

Dated: December 16, 2011

Kimberly D. Bose,
Secretary.

**Agenda for the Technical Conference Discussing CAISO's Proposal to Eliminate
Convergence Bidding at Intertie Scheduling Points
February 2, 2012**

Opening Remarks

9:00 am – 9:15 am Greeting and Opening Remarks

9:15 am – 10:00 am Opening Presentation by CAISO

Discussion

Discussion on the following issues will be led by Commission staff, with questions on each topic to be raised by staff and interested parties in attendance. Commission staff and CAISO will be seated at tables located at the front of the hearing room. Staff does not anticipate any formal presentations during these discussions; however, parties should plan to participate in topics of specific interest to them. The objective of the technical conference is to obtain new information on and discuss these topics, including information on alternative proposals. Please note that although specified time periods have been allotted to discussion topics, we will continue to move forward to discussion topics as soon as discussion on the prior topic has concluded. There will be a lunch break.

Discussion of the performance of convergence bidding at intertie scheduling points and internal nodes

- What have the total aggregate monthly values of the real-time imbalance energy offset been since April 2009?
- CAISO claims that, out of approximately \$102 million total real-time imbalance energy offset costs, the offsetting convergence supply bids at intertie scheduling points and convergence demand bids at the internal nodes have contributed a total of \$53 million since February 2011.² Meanwhile, SESCO Enterprises LLC, West Oaks Energy, LLC, and XO Energy CAL, LP (collectively, Financial Marketers) argue that when the offsetting bids are removed convergence bidding contributes only \$34.9 million of the \$53 million to the total real-time imbalance energy offset, and they argue that this value is declining.³ What has been the monthly contribution of convergence bidding at intertie scheduling points to the real-time imbalance energy offset since February 2011? What has been the monthly contribution to the total real-time imbalance energy offset of convergence bidding

² CAISO Filing at 14.

³ Financial Marketers Protest at 7.

when offsetting bids submitted within the same scheduling coordinator are isolated since February 2011?

- What has been the impact of the elimination of convergence bidding at intertie scheduling points, pursuant to the November 25 Order, in terms of the real-time imbalance energy offset and convergence/divergence of prices?
- CAISO argues that convergence bidding at the interties has led to divergence between day-ahead and real-time prices.⁴ Western Power Trading Forum (WPTF) argues that there has been convergence between day-ahead and real-time prices (hour ahead scheduling process prices and real-time dispatch prices).⁵ Please explain in greater detail the effects of convergence bidding at the internal nodes and interties. For example, under the current market design:
 - o Has there been convergence or divergence of day-ahead and real-time prices on the internal nodes? Please explain whether there is convergence or divergence based on daily data, monthly data, or other. How do these metrics differ?
 - o Has there been convergence or divergence of day-ahead and hour-ahead scheduling process prices on the interties? Please explain whether there is convergence or divergence based on daily data, monthly data, or other. How do these metrics differ?
- What are the total aggregate monthly values representing the impact of the price inconsistencies that result from the dual intertie constraint?⁶ What has the monthly trend been, and what is the driver of the trend?
- Does implicit convergence bidding cause problems (i.e., reliability concerns)? Has convergence bidding at intertie scheduling points aided in limiting or eliminating implicit convergence bidding (i.e., cancelling physical import or export schedules)? If so, how has the elimination of explicit convergence bidding at intertie locations impacted the occurrence of implicit convergence bidding?
- Have there been any reliability impacts, price spikes, or price divergence from eliminating explicit convergence bidding at intertie scheduling points?
- Have there been benefits observed from permitting convergence bidding at intertie scheduling points? What evidence has there been of the benefits?
- How has convergence bidding been used to hedge congestion on intertie scheduling points?
- How has convergence bidding been used to hedge delivery risk on intertie

⁴ CAISO Filing at 3.

⁵ WPTF at 14.

⁶ The dual intertie constraint refers to the fact that, on the interties, CAISO only considers physical transactions when determining unit commitment, but considers both physical and virtual transactions to establish prices.

scheduling points? What are physical resources losing by not being able to hedge their physical positions using virtual bidding at intertie scheduling points? Please provide examples of any other practices that are impacted by not being able to submit convergence bids at intertie scheduling points.

- CAISO states that a rule prohibiting offsetting internal and external virtual bids would be “easily undermined by collusive transactions.”⁷ In order to understand the motivation for “collusive transactions”, please provide aggregate values that represent the maximum actual monthly profit of a virtual bidder submitting offsetting virtual supply bids at the interties and virtual demand bids at the internal nodes.

Discussion of the dual real-time market structure (scheduling and pricing interties in the hour-ahead scheduling process, and scheduling and pricing internal nodes in real-time dispatch)

- Has the hour-ahead scheduling process price been consistently below the day ahead price since April 2009? Has there been a predictable pattern of price difference in certain hours? How has that pattern been affected, if at all, since convergence bidding was allowed?
- What are the contributing factors to the real-time dispatch price being higher than hour-ahead scheduling process price (i.e., forecasting errors, operator biasing, ramping flexibility procurement, hourly interchange scheduling)? How do these factors impact the ability of convergence bidding to result in price convergence on internal nodes and intertie scheduling points?
- WPTF states that on July 6, 2011, the loss of an external resource contributed to an increased number of market participants declining hour-ahead scheduling process awarded schedules to import power. WPTF states that, instead of considering whether resources within CAISO could replace the lost energy at cost-effective prices, CAISO continued to dispatch increasing quantities of imports, inflating the hour-ahead scheduling process price.⁸ Is this an accurate representation of the events on July 6, 2011? In general, what impact does the dual real-time market structure have on CAISO’s operations and pricing trends? How does scheduling in the hour-ahead scheduling process based on forecasted conditions impact prices and scheduling at the internal nodes in real-time dispatch?
- What are the disadvantages and advantages of settling imports and exports at the real-time dispatch price?

⁷ CAISO Filing at 17.

⁸ WPTF Protest at 18.

Discussion of alternative proposals: *Please evaluate the alternatives proposed by protestors and discussed by CAISO in its filing as described below, as well as any others, to eliminating convergence bidding indefinitely at intertie scheduling points. Please be prepared to discuss whether these alternatives could be implemented and how the alternatives will address the costs identified by CAISO that are attributed to convergence bidding at intertie scheduling points.*

- Prohibit offsetting internal and external virtual bids.
- Implement a settlement rule that would neutralize the price arbitrage of the hour-ahead scheduling process and real-time dispatch.
- Modify the timing of convergence bidding liquidation and settlement. For instance, CAISO states that it considered keeping day-ahead awarded virtual supply and demand positions in the hour ahead scheduling process.
- Modify the existing allocation of the real-time imbalance energy offset to measured demand, to more accurately reflect cost causation.
- The approach utilized in the New York Independent System Operator to settle the interties.⁹
- Pay as bid *or* pay the greater of the bid or the real-time dispatch price.

4:15 pm – 4:30 pm

Closing Remarks

[FR Doc. 2011-32765 Filed 12/21/2011 at 8:45 am; Publication Date: 12/22/2011]

⁹ NYISO is a net importer and schedules imports and exports in the hour-ahead process, similar to CAISO's hour-ahead scheduling process. Where there is no congestion on external interfaces, NYISO will settle imports and exports at the time-weighted average of the real-time price at the relevant proxy bus. Imports receive a bid production cost guarantee if the real-time price is lower than their offer price. CAISO Filing at 18.